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SENSITIVE

C O R R E C T E D C O P Y (S E N S I T I V E C A P T I O N A D D E D)

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SUBJECT: NEPAL AMBASSADOR SHARMA DISCUSSES PEACE PROCESS,
TRADE WITH SCA ASSISTANT SECRETARY BLAKE

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¶1. (SBU) SUMMARY: During a January 7 courtesy call with Nepal's Ambassador to the United States, Shankar P. Sharma, SCA Assistant Secretary Robert Blake voiced U.S. concern regarding the lagging pace of the peace process in Nepal and emphasized the need for the Government of Nepal to reach out to the Maoists in order to keep them in the peace process. A/S Blake further noted U.S. concerns that an overly hasty withdrawal of the UN Mission in Nepal (UNMIN) might be destabilizing, and stated that the U.S. supported a full six month extension for the UNMIN mission. Ambassador Sharma, while recognizing recent positive developments in Nepal's peace process, stated that the Maoists still needed to be brought into the framework of democratic politics and asked for U.S. pressure on the Maoists to help accomplish this end. Sharma further pressed for the early completion of a Trade and Investment Framework Agreement (TIFA) between the U.S. and Nepal. END SUMMARY.

PEACE PROCESS CONCERNS

¶2. (SBU) Ambassador Sharma began by noting recent positive developments in Nepal's peace process. In particular, he pointed to the January 7 discharge of the first batch of disqualified personnel from Maoist cantonments. Sharma stated that the Maoists support the GON's action plan to complete the discharge and integration of Maoist combatants within the next three and a half months.

In response to A/S Blake's note of skepticism regarding this point, Ambassador Sharma stated that he had read about this development in the press. Sharma further raised the Maoist agreement to participate in a high-level political mechanism as a further positive development. He admitted that, despite the above positive trends, the Maoists still needed to be brought within the framework of democratic politics. Sharma stated that the U.S. could play a helpful role by applying pressure on the Maoists in this area.

¶3. (SBU) Noting the long friendship between the U.S. and Nepal, A/S Blake voiced U.S. concern over the failure to reach key deadlines in Nepal's peace process. Blake emphasized the need for the GON to reach out to the Maoists and show them that they have a place in the political process. In this way, the GON could help to prevent the Maoists from returning to violence. Blake stated that the U.S. has started a dialogue with the Maoist leadership and

provided Prachanda with a set of benchmarks, such as renouncing violence, reforming the Communist Youth League (YCL) and making amends for the killing of two U.S. Embassy employees. The Maoists understand these conditions, Blake said, but they have been unwilling to meet these benchmarks to date. Blake noted that the U.S. was glad to see UN Special Representative Radhika Coomaraswamy's December visit to Nepal, which resulted in an action plan to discharge disqualified personnel from Maoist cantonments.

¶4. (SBU) In response to Blake's request for Sharma's views on how to move forward on the peace process, and how to work with India on this issue, Sharma stated that U.S. engagement with the Maoists was helpful. He reiterated that the U.S. needed to pressure the Maoists to cooperate with the peace process. Sharma further stated the GON's view that Maoist disarmament must be completed before the constitution drafting deadline. He stated that if the Maoists disarm, and manage to gain a parliamentary majority, they could form a government. When pressed regarding the Maoist's ability to lead a government, Sharma conceded that the existence of the current 22-party coalition government, unprecedented in Nepal, suggests that many doubt the Maoist's ability to lead the government. He further agreed with Blake's point that the Government of India (GOI) seems to have serious doubts regarding the Maoists. Sharma subsequently said that, despite these concerns over the Maoist ability to "lead" the government, he believed that it was beneficial for the Maoists to "join" the government. On this point, Sharma opined that the Maoists should be encouraged to join the

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government, as participation in normal politics would ultimately lead the Maoists to respect democratic norms and processes.

¶5. (SBU) A/S Blake stated that the upcoming UNSC decision on the UNMIN extension will be critically important. He relayed U.S. concern regarding press reports that the GON planned to seek a UNMIN extension shorter than six months. In particular, Blake noted that the termination of UNMIN before the May 28 constitution drafting deadline could introduce an element of instability into the peace process during a critical period. He pressed that the U.S. supports the extension of UNMIN for a full six month term. Sharma responded that the Communist Party of Nepal - United Marxist Leninist (UML) and the Nepali Congress Party (NC) had concerns over UNMIN failures to adequately investigate Maoist violations of the terms of the Comprehensive Peace Agreement (CPA). In particular, Sharma noted UML and NC concerns that UNMIN had failed to investigate Maoist involvement in violence in southern Nepal.

TRADE AND INVESTMENT FRAMEWORK AGREEMENT (TIFA)

¶6. (SBU) Sharma stated his desire to see improved economic relations between the U.S. and Nepal, particularly the completion of a Trade and Investment Framework Agreement (TIFA) between the U.S. and Nepal. Sharma listed several improvements, since 2006, in Nepal's investment climate, including an improved human rights record, decrease in violence throughout the country, and heightened interest in Nepal's hydropower sector. He claimed that, as of January 1, 2010, Nepal had opened its service sector in line with previous World Trade Organization commitments. Sharma recounted that, in his most recent meeting with the Office of the U.S. Trade Representative (USTR), he had received little encouragement on the TIFA. He opined that Embassy Kathmandu likely had concerns regarding the TIFA and said that he would encourage the Ministry of Commerce to meet with U.S. Embassy personnel in Kathmandu on the TIFA issue.

¶7. (SBU) In response to Sharma's repeated raising of TIFA, A/S Blake stated that a TIFA must be driven by U.S. business

interest. Blake said that U.S. businessmen likely had concerns regarding violence in the Terai, energy and infrastructure limitations, as well as transparency issues in Nepal. In this vein, Blake raised U.S. concerns regarding the transparency of the recent bidding process by the Nepal Airlines Corporation (NAC), in which Boeing lost to Airbus. Blake noted that U.S. businesses pay attention to this kind of case as an indicator of the investment climate. Blake expressed his hope that the GON would take a look at this case to ensure proper transparency in the process going forward.

¶8. (SBU) A/S Blake pointed out that, in terms of human rights issues, the recent promotion of Toran Singh to second-in-command of the Nepal Army is troubling. Separately, the GON's moves to arrest Major Basnet, implicated in the killing of Maina Sunuwar, was a good step, Blake said. However, the Nepal Army's refusal to transfer Basnet to civilian authorities is disheartening. In short, Blake observed, Nepal presents a "mixed picture" to investors. He emphasized that it is incumbent on Nepal to make the business climate as attractive as possible. Blake offered that Nepal's proximity to India, in which many U.S. companies have become established, offers an opportunity to lure these investors to Nepal. In response to Sharma's statement that Millennium Challenge Corporation (MCC) data shows Nepal as one of the strongest countries in South Asia on measures of economic freedom, Blake supported Sharma's plan to work with the U.S. Chamber of Commerce to arrange a briefing by a Nepalese minister for interested U.S. companies. Blake further encouraged Sharma to reach out to the U.S. Chamber of Commerce in India, as they would have a better sense of South Asia. Blake cautioned that, given the current political situation in Nepal, Nepal would be unlikely to get MCC support. If the peace process continues in a positive direction, Blake added, Nepal could likely become competitive for MCC funds.

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